

**www.MCI-WorldCom/merger/monopoly/
they'd-control-just-about-the-whole-dang-Internet/
HUUUUUGE-mistake.com**

One company – OWNING most of the Internet. Doesn't sound right, does it? But it's exactly what could happen if the proposed merger between MCI and WorldCom goes through. Overnight, MCI/WorldCom would control over 60% of the Internet backbone that connects thousands of service providers and individual users to the Net. One company would have the power to raise prices, restrict access and squeeze out competitors.

But more than the Internet is at stake. The MCI/WorldCom merger would be a major retreat from telecommunications reform. Reform was supposed to give us more competition, not new monopolies. MCI/WorldCom would stifle competition, jeopardize universal service, and lead to higher rates for consumers.

It's time for Congress and regulators to pull the plug on the MCI/WorldCom merger. Because without good jobs and real competition, the information superhighway is a road to nowhere.



the MCI/WorldCom Merger

Communications Workers of America • International Brotherhood of Electrical Workers

For more information, visit www.cwa-union.org.

DUPLICATE

February 2, 1998

FEDERAL COMMUNICATIONS
COMMISSION
WASHINGTON, D.C. 20554

FEB 5 '98

RECEIVED

The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M St., N.W.
Room 814
Washington, D.C. 20554

Re: In the Matter of Applications of WorldCom, Inc. and MCI Communications Corporation for
Transfer of Control of MCI Communications Corporation to WorldCom, Inc.
CC Docket No. 97-211

Dear Chairman Kennard,

When you assumed the mantle to guide America into a new telecommunications age, a time when voice, data, and video services will merge on networks stretching from Main Street around the globe, you pledged allegiance to three fundamental principles: "*Competition, Community and Common Sense.*" But just as the framework for this new era is emerging, there is a new challenge to its realization. The proposed merger of WorldCom and MCI stands as the antithesis of your ideals for the future – it is a union that inherently reduces competition while creating incentives to ignore less profitable communities and consumers. Indeed, the creation of a carrier with market power cutting across a wide swath of services will be funded by multi-billion dollar cuts which common sense suggests would be at the expense of residential customers.

We come to you not individually, but as a coalition whose viewpoints are, admittedly, not always so easily reconciled. With representatives from big business and labor, Internet providers and users, telecommunications retailers and wholesalers, minorities, consumers and varied interests from around the country, we nevertheless are united by our belief that this transaction must be fully scrutinized and tested against a record of facts rather than the Applicants' puffery. After this merger is subjected to the rigorous examination that its potential consequences demand, we believe that you will determine that a combination of WorldCom and MCI will violate the most basic interests of the American public.

Despite the claims of WorldCom and MCI that their combination will translate into multibillion dollar efficiency gains, they have yet to demonstrate publicly where, how or why this will happen. Similarly, their claims of public benefit are not buoyed by substance, but by

vague assurances and glib promises laden with loopholes. But regardless of the Applicants' penchant for offering sound bites where serious analysis is demanded, the underlying damaging effects of their proposed merger cannot so easily be camouflaged.

"Competition"

Quite simply, the merger of WorldCom and MCI reduces rather than enhances competition.

At a time when the Internet is an emerging breeding ground for innovation and economic growth unparalleled in this nation's history, WorldCom and MCI propose to concentrate in their own hands the potential to dominate this burgeoning marketplace. Rather than enhancing opportunity for entrepreneurs and innovators to transform the Net into a vibrant marketplace of ideas and commerce, this merger will simply deter competitors and transform the very industry structure of the World Wide Web.

In much the same way, "two plus four" in the long distance market equals no prospect for increased price competition. That is, when the second-largest and fourth-largest long distance providers combine their networks, they will do nothing but increase the power of the "silent cartel" that now influences long distance prices.

In the international market that provides consumers with their window to the world, a combined WorldCom-MCI will be likely to possess market power over numerous routes and services. In the blink of an eye, the merged company would hold control of 45 percent of the international private line market. The transaction will retard rather than accelerate competition.

"Community"

The essence of community is opportunity, a chance for everyone -- regardless of race, gender or economic prowess -- to share in the growth, prosperity and hope that flows in the wake of progress. These simple principles are at the very heart of the public interest and must be accounted for by the participants in the largest merger in world history. WorldCom and MCI have not and, we argue, can not meet their burden to show that what may be good for them will be good for those whom they purportedly serve.

American residential consumers want the benefits of price competition in local and long distance service, but have yet to see results where it counts -- in their monthly bills. How can the combination of two powerhouse long-distance providers, whose only demonstrated interest in local service has been to build their networks in big business' backyard, offer prospects for true competition where it is needed the most? The answers lie within the silence of the Applicants.

Is there any guarantee that the Applicants won't rely on red-lining, cream-skimming and geographic hopscotch to target big business and the wealthy while leaving minority and poor neighborhoods behind? Will the discounted service and "synergies" hailed by WorldCom and

MCI flow through to those who are equally entitled to them and surely need the benefits the most? Will the buildout of the telecommunications infrastructure of the future simply bypass America's minorities and the poor? Again, it is silence that resonates from the Applicants.

WorldCom and MCI have failed to address the effects of their merger on America's communities. They have refused to promise that their vision of the future does not restrict rather than expand participation and service. They have not shown the public interest will be served. Answers, not silence, are required.

"Common Sense"

Common sense requires that WorldCom and MCI be put to the test. They must be required to prove their halcyon claims, to show that their combination will serve the public interest, to commit to competition and open markets, to show that the benefits of their combination will not end at the board room door. Their applications are a virtual factual vacuum that fail, by any common sense measure, to meet the standards of proof required by the Commission when it reviews mergers in the telecommunications context.

Common sense requires that the Commission embark on the following course of action:

- (1) The Commission should grant the Motion to Dismiss filed in response to the WorldCom-MCI applications or give the applicants one last chance to provide information sufficient to respond to the public interest demands of the Commission's *Bell Atlantic/NYNEX* standard; and
- (2) Amend the pleading cycle set at the outset of the WorldCom-MCI proceedings to permit full consideration and response by the Petitioners to: (a) arguments contained in the Applicants' Joint Opposition to our Petitions To Deny; (b) the information submitted pursuant to the Justice Department's Hart-Scott Rodino review, which should be made available to the Petitioners; (c) further information that must be submitted by the Applicants to comply with the requirements of *Bell Atlantic/NYNEX*.

We agree with your vision of the future, Mr. Chairman, and we believe that it is only through a thorough examination of this proposed merger that the principles of "*Competition, Community and Common Sense*" will be served. We respectfully request that you stand firm in your resolve to see these goals are achieved. When they are, and the facts are all on the table, we hope and firmly believe you and your fellow Commissioners will conclude that the merger of WorldCom and MCI must not be consummated.

Sincerely,

Communications Workers of America

Coalition of Utah Independent Internet Service Providers

GTE Service Corporation

Inner City Broadcasting Corporation

National Association of Black Owned Broadcasters

National Council of the Churches of Christ in the U.S.A.

Rainbow/PUSH Coalition

Simply Internet, Inc.

Spanish Broadcasting System, Inc.

Telecommunications Advocacy Project

TMB Communications, Inc.

Backgrounder for Editors
March 11, 1998

For more information
Jeff Miller or Candice Johnson
CWA Communications, 202/434-1168

WORLDCOM AND MCI PROPOSED MERGER FACES MOUNTING REGULATORY SCRUTINY

Even as shareholders vote on the proposed merger of WorldCom Inc. and MCI Communications Corp., the deal is facing increased regulatory scrutiny and growing opposition in the United States and abroad. The WorldCom juggernaut has acquired speed by gobbling up companies in its quest for dominance of the Internet and telecommunication industries. But, as evidenced by recent national and international regulatory decisions, antitrust and competition concerns may stop it in its tracks.

The U.S. Department of Justice, the Federal Communications Commission, and the European Commission all have taken actions in the past two weeks that directly contradict WorldCom and MCI's assertions for quick regulatory approval. The deal also appears to be facing growing antitrust and anti-competitive problems at the state level.

U.S. Department of Justice

- ♦ On March 10, a report in *The Wall Street Journal* stated that "The Justice Department widened its investigation of WorldCom Inc.'s proposed acquisition of MCI Communications Corp., signaling that the \$37 billion transaction could face antitrust problems."

"Regulators are focusing on how dominant the combined companies would be in Internet services, according to documents and people who have been interviewed for the investigation. If the combination is approved, industry analysts estimate the companies would control more than half of Internet traffic through the high-capacity cables and computers that form the backbone of the international data network." John Wilke and Jared Sandberg, "Agency Widens Investigation in WorldCom-MCI Dealings," The Wall Street Journal, March 10, 1998.

The Federal Communications Commission

- ♦ On February 27, the FCC extended the comment period for parties to intervene against and comment on the merger. The FCC also indicated that the deal would be held to the strict disclosure and information standards applied in the Bell Atlantic/NYNEX and the BT/MCI mergers – not the weaker standard WorldCom and MCI maintained applied to their deal.

-- more --

Communications Workers of America, AFL-CIO,CLC

Communications Department, Director: Jeffery M. Miller

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CWA NEWS

"We encourage parties to address in their comments on the Joint Reply the application of the merger framework the Commission articulated in the Bell Atlantic/NYNEX and BT/MCI merger proceedings to the proposed merger at issue in this proceeding. This includes an identification of the relevant product and geographic markets, the actual, potential, and precluded competitors in these markets, a description of any barriers to entry or expansion into these markets, and a discussion of the potential competitive effects and efficiencies resulting from the merger and other possible effects that may be relevant to the Commission's public interest assessment." FCC Order, February 27, 1998.

The European Commission

- ◆ On March 4, the European Commission announced its decision to launch a Phase II full investigation into the proposed merger. Citing concerns about WorldCom and MCI's combined market share of the Internet backbone, the EC decided a lengthy four-month investigation would be necessary. While both companies are U.S.-based, the EC refused to rubber stamp the merger recognizing the critical issues at stake for the future of global communications.

"The Commission decided to carry out a second-phase inquiry given that, on the basis of information obtained in investigations carried out to date, it is concerned about the parties' combined market share in relation to the supply of Internet backbone services. Services affected by the merger are the provision of a network of high capacity, long distance connections capable of carrying data nationally and internationally, and interconnected with other networks of similar scale through peering arrangements." European Commission statement March 4, 1998.

The Pennsylvania Administrative Law Judge

- ◆ On March 6, the Pennsylvania Administrative Law Judge handling the merger case announced that it would hold WorldCom and MCI to a strict standard placing the burden of proof on the companies to show that their deal is in the public interest and provides tangible public benefits. Pennsylvania is just one of 22 states where the deal must receive state regulatory commission approval.

"By a preponderance of the evidence that public benefit will result from the merger." And, *"will affirmatively promote the service, accomodation, convenience or safety of the public in some substantial way."* Ruling by the Pennsylvania Administrative Law Judge, March 6, 1998.

Great Expectations: Corporate Greed in the MCI WorldCom Merger



United for a Fair Economy
March 1998

United for a Fair Economy is a national, independent, non-partisan organization founded in 1994 to focus public attention and action on economic inequality in the United States—and the implications of inequality on American life and labor. United for a Fair Economy provides educational resources, works with grassroots organizations, and supports creative and legislative action to reduce inequality.

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Cover illustration by Ted Rall

This report is available online at www.stw.org

Executive Summary

The Telecommunications Act of 1996 was supposed to give consumers more competition, better service, and lower prices. Instead, it's brought mostly a corporate scramble to merge, acquire, and restructure that has done a lot more for the pocketbooks of a few executives and investment bankers than for the public.

The largest of these telecom mergers—indeed, the largest merger in U.S. history—is the pending combination of MCI Communications and WorldCom, Inc. The proposed deal represents corporate gluttony on a grand scale; MCI's top executives will reap tens of millions from the merger no matter what happens to their employees, shareholders, or customers:

- Even before the deal has been approved by shareholders or state and federal regulators, wheeling and dealing around **the merger has generated millions for MCI Chairman Bert Roberts** and for the Wall Street investment banks helping to drive the merger through.
 - **MCI's top five executives stand to make tens of millions more** in retention bonuses, special vesting terms of the merger, severance packages, and more, in addition to the millions they're already paid in salaries, bonuses, stock awards, and luxury perks.
 - The merged company will focus on high-revenue business customers, **abandoning MCI's plans to build out local networks** and compete for residential customers.
 - The merger will mean **75,000 lost job opportunities** in the telecommunications industry.
-

Introduction

In the fall of 1997, MCI Communications agreed to be purchased by WorldCom, Inc., a long distance company with a history of buying up other companies. MCI and WorldCom claim that the \$38 billion merger—the largest in U.S. history—will save the two companies billions of dollars. These savings will come from a retreat from MCI's aggressive plan to build local networks; they'll come from job cuts—1,500 have already been announced at MCI—and corporate "restructuring"; they'll come from some 75,000 lost job opportunities; they'll come from schools and libraries with less opportunity to get students and communities on the Internet. But there's one place they definitely *won't* come from: the well-lined pockets of MCI's top executives.

In fact, executives at MCI will profit handsomely from this deal no matter what happens to their employees, stockholders, or customers.

Winning Big

MCI was about to consummate a long-standing agreement to merge with British Telecom when WorldCom made its offer to buy MCI. Unlike the British Telecom offer, as well as a competing bid from GTE Corporation, the WorldCom purchase would be made not with cash but with shares of WorldCom stock. In making this deal, MCI's board put stockholders on the line with a high-stakes bet that WorldCom's stock price will continue to increase, that the merger will be approved by state and federal regulators, and that the merger will be a success. But that bet is really no gamble for MCI's top executives.

Cashing In: MCI Executives

- Multi-million dollar pay packages
 - Immediate vesting of stock options and awards
 - Retention bonuses
 - Severance pay
-

Bert Roberts, Chairman of MCI, and Gerald Taylor, CEO, both sit on the board of MCI. They and other advising executives had plenty of reasons to approve the merger—millions of them, in fact. Roberts, Taylor, and their fellow senior executives will receive enormous windfalls worth tens of millions whether or not the merger is a success. If the merged company doesn't do well or if these executives lose their jobs as a result of the merger, they're protected through enormous compensation packages, special terms of the merger that benefit them, huge retention bonuses, massive severance pay, and more.

Cashing In Quickly

In fact, executive profits from the merger started piling up before the ink was dry on the deal. The announcement of the WorldCom offer sent MCI's stock price up by 17%, making executives' stock options more valuable. MCI Chairman Bert Roberts cashed in a big chunk of his options four days after MCI accepted WorldCom's bid, reaping \$6.1 million.¹ Whatever else happens to the deal, Roberts has already made a handsome profit.

MCI Chairman Bert Roberts cashed in a big chunk of stock options, reaping \$6.1 million. Whatever else happens to the deal, Roberts has already made a handsome profit.

Executive Compensation

Even before calculating the enormous profits they stand to make from the WorldCom merger, senior MCI executives are *very* well paid. In 1996, the most recent year for which complete compensation information has been released, MCI Chairman Bert Roberts was paid \$8.2 million in direct compensation, plus stock options (more about those below) potentially worth another \$8.4 million.² Gerald Taylor, MCI's CEO, got \$5.75 million, plus \$6.1 million in stock options.³ Other top executives also received huge compensation packages, including MCI President Timothy Price (\$3.96 million direct compensation, \$5.4 million in options); Executive VP Michael Rowny (\$1.4 million direct, \$3.7 million in options); and Executive VP and CFO Douglas Maine (\$1.2 million direct, \$3.3 million in options).⁴

Cashing In: Bert Roberts, Chairman



1996 Direct Compensation:
\$8,165,000

1996 Stock Option Grant:
\$8,391,078

Profit from Stock Options Cashed
in After Merger Announcement:
\$6,112,900

Retention Bonus:
\$10,500,000

Minimum Severance Pay:
\$6,900,000

Potential Profit from Cashing in
Unexercisable Options:
\$8,670,262

These executive pay packages range from 62 times to 272 times the pay of even the more highly paid technicians at MCI, who earn about \$45,000 per year.⁵

Full compensation figures for 1997 hadn't yet been released when this report was written but can be expected to be comparable.

These enormous compensation packages should be enough for anyone, right? But wait: MCI executives will make money from the merger in several other ways as well.

Immediate Gratification

It has become typical in recent years for many companies to give their top executives enormous grants of stock options. These options give executives the right to buy stock at some set price (known as the "strike" or "exercise" price) in the future. Stock option grantees can make enormous profits by waiting until the market price of the company's stock exceeds the strike price and then cashing in their options. Usually, these options can only be exercised over time, to give the executive an incentive to

**Cashing In:
Gerald Taylor,
CEO**



1996 Direct Compensation:
\$5,750,000

1996 Stock Option Grant:
\$6,060,223

Retention Bonus:
\$9,500,000

Minimum Severance Pay:
\$4,500,000

Potential Profit from Cashing in
Unexercisable Options:
\$5,955,856

keep pushing the stock price up. At MCI, option grants usually become exercisable over three years, with one-third of the grant becoming exercisable on the first, second, and third anniversary of the grant date. As part of the deal with WorldCom, however, MCI executives won't have to wait for these vesting dates. Instead, all unvested stock options, as well as all restricted stock units, matching incentive stock units, and retention stock units, vest immediately upon closing of the merger. The windfalls to MCI executives from this arrangement are incredible.

As of December 31, 1997, MCI executives and directors had a total of 4.3 million stock options, of which one-third, or 1.4 million, were not yet exercisable.⁶ On the day the merger goes through, all of these options would become exercisable, allowing MCI executives and directors to cash them in for tens of millions of dollars. Through this arrangement, executives and directors will be able to cash in big on the merger, even if the company's stock price later falls.

This group also held a total of 1.1 million restricted shares and incentive stock units at the end of 1997, all of which become exercisable when the merger is completed.⁷

MCI and WorldCom documents do not provide details to calculate the exact amounts each executive may reap from the accelerated vesting schedule, but earlier figures provide a guide. Based on 1996 information on stock options alone, immediate vesting of Bert Roberts's unexercisable options would yield up to \$8.7 million if Roberts cashed them in. Other senior executives would also make out quite well: Taylor, \$6.0 million; Price, \$6.0 million; Rowny, \$4.0 million; and Maine, \$3.6 million.⁸

Retention Bonuses

So far, we've seen how much executives stand to gain simply from helping to close the merger deal. On top of that, MCI has reserved more than \$420 million to pay out in retention bonuses. One hundred seventy million will be paid to senior executives—executives who are already receiving millions in salary, bonuses, stock options, and luxury perks. MCI has specified the amount of these payments for the top three executives: Bert Roberts gets \$10.5 million; Gerald Taylor, \$9.5 million; and Timothy Price, \$9 million.⁹

**Cashing In:
Timothy Price,
President**



1996 Direct Compensation:
\$3,962,000

1996 Stock Option Grant:
\$5,360,967

Retention Bonus:
\$9,000,000

Minimum Severance Pay:
\$3,450,000

Potential Profit from Cashing in
Unexercisable Options:
\$5,995,481

A second pool of \$100 million is being set aside for executives and some managers, to be distributed before the merger. MCI managers are permitted to make "discretionary grants" from this pool to "key individuals."¹⁰ These "super" bonuses—up to 100% of salary and bonus—will trickle down farther in the ranks than will other merger-related manna, to about 1,000 of MCI's 55,000 employees.¹¹

Finally, another \$150 million will be spent on post-merger retention.¹² Allocation terms of this pool have not been disclosed.

| Retention Bonuses | | |
|---|--|-----------------------|
| Retention Pool #1: | Pre-Merger; for Senior Executives | \$ 170,000,000 |
| | Bert Roberts \$ 10,500,000 | |
| | Gerald Taylor \$ 9,500,000 | |
| | Timothy Price \$ 9,000,000 | |
| | Other senior executives \$141,000,000 | |
| Retention Pool #2: | Pre-Merger; for 1,000 Executives and Managers | \$ 100,000,000 |
| Retention Pool #3: | Post-Merger Retention; Discretionary | \$ 150,000,000 |
| Total | | \$ 420,000,000 |
| Source: MCI and WorldCom, Joint Proxy Statement/Prospectus, Jan. 22, 1998, at 63, 66. | | |

But Wait—There's More!

What if, after receiving a multi-million dollar compensation package, cashing in freshly exercisable options, and accepting a large retention bonus, a top executive decides to leave MCI? The top eight senior executives will receive severance pay worth three times their salary and bonus. Based on the preliminary 1997 compensation figures released by MCI, the *minimum* severance payments the top five executives would receive are as follows: Bert Roberts, \$6.9 million; Gerald Taylor, \$4.5 million; Timothy Price, \$3.5 million; Michael Rowny, \$2.0 million; and Douglas Maine, \$1.8 million.¹³

Another twenty senior executives are covered by MCI's Executive Severance Policy, under which they receive two times their salary and bonus upon leaving.¹⁴ Other executives receive four to

twelve months' pay depending on their years of service and level in the company hierarchy.¹⁵ Maximum payouts are made to executives with six or more years of service.

Finally, the merger terms offer MCI executives one last protection: indemnification insurance.¹⁶ The executives are protected from any liability expenses arising from a law suit that alleges a breach of their fiduciary duties. In effect, this shields the executives from legal action by shareholders who want to protest, for example, the terms of the merger that enriched the very executives who made the deal.

Wall Street's Stake

Helping to drive this merger forward are the Wall Street investment firms that stand to make millions if the deal goes through. MCI and WorldCom have retained three investment firms to help with the merger, with combined fees of almost \$70 million, detailed below.¹⁷ The bulk of the investment fees—about \$50 million—will be paid only if the merger is completed. One of these firms, Salomon Smith Barney, is said to have lost \$100 million when the planned MCI merger with British Telecom fell apart and is eager to help make up its loss on the new merger.¹⁸ Salomon isn't alone; other large Wall Street investors who own significant blocks of MCI stock also took big losses on the British Telecom failure, giving Wall Street every reason to support the current deal, huge executive payoffs and all.

| Investment Advisor Fees | | | |
|---|-----------------|----------------------------|-------------------------------------|
| | Pre-Merger Fees | Fees On Completion | Total Fees |
| Lehman Brothers | \$3,500,000 | \$6,500,000 to \$8,500,000 | \$10,000,000 to \$12,000,000 |
| Lazard Frères | \$6,250,000 | \$18,750,000 | \$25,000,000 |
| Salomon Smith Barney | \$10,000,000 | \$22,500,000 | \$32,500,000 |
| Total | \$19,750,000 | \$47,750,000 | \$67,500,000 to \$69,500,000 |
| Source: MCI and WorldCom, Joint Proxy Statement/Prospectus, Jan. 22, 1998, at 51, 54, 56. | | | |

Once the deal is done, big Wall Street investors will continue to bring pressure to bear on the new MCI WorldCom, forcing it to make good on the promised "synergies"—Wall Street-speak for cutbacks—even at the cost of retreating from residential customers or cutting jobs:

"What happens if the financial projections on which such gigantic financial structures are founded prove over-optimistic, and . . . [WorldCom CEO Bernie] Ebbers is unable to make a merger with MCI work? There is little room for error. Based on the high value Wall Street expects a combined WorldCom/MCI to enjoy a premium rating on the stock market that will set it apart from every other large telecoms company. Any suggestion that his company was gravitating to the merely ordinary would be devastating."¹⁹

The result of all the wheeling and dealing behind the merger has been to transform MCI from a provider of telecom services to consumers into a financial instrument for institutional investors, investment banks, and arbitragers.

How Do the Rest of Us Fare?

The MCI WorldCom merger does not prove to be such a sweet deal for other stakeholders. Ordinary MCI employees and stockholders, as well as MCI's residential customers, schools and libraries, and workers and families, all have cause for concern.

Who Loses?

- MCI employees
 - Residential customers
 - Schools and libraries
 - Workers and families
-

MCI Employees

First, let's compare the executive windfalls and protections described above with what's likely to happen to average MCI employees. MCI workers are not protected by a union; the company fought against employees' efforts to organize. So, these workers are at the mercy of their employer for merger-related job transfers, restructuring, and layoffs. MCI has already announced 1,500 job cuts,²⁰ and the scale of savings the companies claim for the merger point toward future layoffs and outsourcing. In January 1998, MCI announced a \$252 million charge for job cuts and restructuring,²¹ which could translate into as many as 4,000 jobs lost. As the Rainbow/PUSH Coalition has pointed out, such layoffs are likely to disproportionately affect minority workers, who tend to have less seniority protection.²²

A VP with only one year of service would receive seven months' severance pay, while an ordinary employee would need 10 years of service to receive seven months' pay.

Unlike the generous retention bonuses for executives, the merger agreement includes no such provisions for regular employees. And those who are laid off can expect three weeks' severance pay per year of service, not the several months or even years of pay top executives are offered for just a few years' tenure at the

company. For example, a vice president with only one year of service would receive seven months' salary as severance pay, while an ordinary employee would need 10 years of service to receive just under seven months' pay—at the regular employee's much lower salary, of course.

Ordinary Stockholders

As noted at the outset, this merger represents a big gamble on the price of WorldCom stock. WorldCom's shares are already priced very high compared to its earnings, and the deal has a lot of ifs that might affect it: Regulators may squash the deal or may set conditions on its approval which will lower the merger's value; a large number of MCI shareholders could decide to take cash for their stock as soon as the merger goes through, sending the stock price down; or the merger may fall flat, failing to generate the revenues needed to justify the merger's high price tag. In short, ordinary stockholders face a host of uncertainties, without the benefit of the lavish safety net that cushions MCI's executives.

Residential Customers

MCI and WorldCom plan to achieve so-called "synergy" savings of \$31-\$49 billion as a result of the merger.²³ Of those savings, \$5.3 billion will come from reduced investment in local phone service over the next four years. Savings of this magnitude indicate that MCI WorldCom is likely to abandon MCI's previous commitment to residential and small business customers. For consumers, this rollback may mean a significant delay in the benefits of competition promised by the Telecommunications Act of 1996.

MCI WorldCom is likely to abandon MCI's commitment to residential and small business customers.

Before this proposed merger, MCI was an aggressive competitor for residential and small business customers in local phone service. The company planned to spend \$2 billion building local facilities, with plans to enter residential and small business markets in more than 100 cities in 1997 and 1998.²⁴

Now, however, financial documents filed by WorldCom with the Securities and Exchange Commission (SEC) make clear the merged company plans to abandon MCI's previous plan to build out its network in order to serve residential and small business customers, according to an analysis by the Communications Workers of America.²⁵ That analysis shows that though some part of the savings may be realized from efficiencies related to the merger, savings of the size envisioned by MCI and WorldCom "can only be realized by a shift in business focus, away from the high costs of marketing, provisioning, billing, and providing customer service to a mass market."²⁶

The result will be reduced competition in both long distance and local markets, with less pressure on companies to lower prices.

Wall Street analysts agree that the merger savings represent "a significant cut back in the aggressive local market entry plans at [MCI's local service unit] MCIMetro."²⁷ The result will be "reduced intra-industry competition" in both long distance and local markets, with less pressure on companies to lower prices.²⁸

Indeed, WorldCom has made no secret of the fact that, unlike MCI, it is not interested in serving residential and small business customers, who do not provide the high profit margins of big businesses. Even before the merger agreement had been finalized, WorldCom's Vice Chairman and Chief Operating Officer John Sidgmore announced that the merged company planned to retreat from the consumer market by transferring MCI's current long distance residential customers to another firm. "[We are] not in the consumer business," Sidgmore said.²⁹ "It's very difficult for us to find a way to make economic sense out of the advertising budgets, the customer service budgets, etc. required to be in the consumer business."³⁰ While the merged company might continue to earn high-margin revenues by carrying consumer traffic on its network, Sidgmore said, the low-margin work of providing customer service, operator services, and billing would be transferred to another carrier.³¹ Sidgmore subsequently tried to backpedal from his statement somewhat after he was criticized, but reiterated that a merged MCI WorldCom would show little interest in the residential market. "Our religious focus is on the business customer," he said. "It is a jihad."³²

Cashing In: Michael Rowny, Executive VP



1996 Direct Compensation:
\$1,382,500

1996 Stock Option Grant:
\$3,729,368

Minimum Severance Pay:
\$1,950,000

Potential Profit from Cashing in
Unexercisable Options:
\$4,035,112

Schools and Libraries

We've seen how much money MCI and WorldCom are spending on accomplishing this merger and the promise of hundreds of millions of dollars for executives. Unbelievably, less than a year ago, both MCI and WorldCom were crying poor when it came to paying their fair share of a universal service fund created to help schools and libraries gain access to the Internet. Our social priorities are skewed when executives get millions while our schools and libraries struggle to serve their communities.

Cashing In: Douglas Maine, CFO & Exec. VP



1996 Direct Compensation:
\$1,185,500

1996 Stock Option Grant:
\$3,263,197

Minimum Severance Pay:
\$1,785,000

Potential Profit from Cashing in
Unexercisable Options:
\$3,621,220

Workers and Families

Cuts in MCI's plans to serve residential customers and other merger-related "synergies" add up to lost jobs. Based on savings outlined by MCI and WorldCom, the Communications Workers of America have calculated that the merger will result in a loss by the year 2002 of 75,000 job opportunities, that is, jobs that will be cut or never created, because of MCI's retreat from serving residential customers and its lowered investment in both local and long distance facilities.³³ The table below shows how this potential job loss was calculated.

| Projected Job Loss | | | |
|--|--------------------------------------|--|---|
| | Projected Savings in 2002 | Average Annual Compensation | Savings/Annual Compensation = No. of Jobs Lost |
| Capital expenditures | \$1.6 billion | \$45,000 | 35,000 jobs |
| Operating costs | \$1.25 billion | \$30,000 | 40,000 jobs |
| Source: WorldCom, SEC Form 8-K, Exh. 99.3, Analysts Presentation Given on Nov. 10, 1997, filed Nov. 12, 1997; Comments of Communications Workers of America, CC Docket No. 97-211, filed Jan. 5, 1998 (as amended Jan. 6, 1998), at 31-32. | | | |

In filings with the SEC, MCI and WorldCom estimate "synergy" savings as a result of the merger of \$31-\$49 billion. Annual projections of savings are taken out to 2002, when MCI and WorldCom estimate yearly savings of \$1.6 billion in capital expenditures for long distance, local, Internet, and international service and savings of \$2.5 billion in operating costs.³⁴ Each of these reductions accounts for a portion of the anticipated job loss. First, the \$1.6 billion reduction in capital expenditures represents networks that MCI will not build as planned and therefore will not employ technicians to build, maintain, and operate. Average annual compensation, including wages and benefits, for telecommunications craft work in this area is estimated at \$45,000. Dividing the \$1.6 billion spending cut by \$45,000 yields a loss of 35,000 jobs by 2002.

**The merger will result
in a loss of 75,000
job opportunities in
telecommunications by 2002.**

The second area of savings, operating costs, comes from MCI local savings and core sales, general, and administrative expenses.³⁵ Estimating that half of the \$2.5 billion in savings come from non-personnel expenses (real estate, advertising, etc.), CWA divided the remaining \$1.25 billion by \$30,000, the average annual compensation for non-union sales, marketing, customer service, and clerical occupations, to calculate the loss of an additional 40,000 jobs. Together, these calculations show a total loss of some 75,000 job opportunities in the telecommunications industry by 2002.

It's Time to Say No

It's time to say no to this stunning display of corporate greed. Join with organizations opposing the merger and let federal regulators and congressional representatives know that this merger is a bad deal for MCI employees and customers, for schools and libraries, and for workers, families, and communities.

Organizations Opposing the MCI-WorldCom Merger:

- AFL-CIO
- Alliance for Public Technology
- Coalition of Utah Independent Internet Service Providers
- Communications Workers of America
- Consumer Project on Technology
- Inner City Press/Community on the Move
- National Association for Better Broadcasting
- National Association of Black Owned Broadcasters
- National Council of the Churches of Christ in the U.S.A.
- Rainbow/PUSH Coalition
- Simply Internet, Inc.
- Spanish Broadcasting System, Inc.
- Telecommunications Advocacy Project
- United Church of Christ

Send your message to:

Joel Klein
Assistant Attorney General
Antitrust Division, Department of Justice
950 Pennsylvania Ave., N.W.
Washington, D.C. 20530

The Honorable [insert your senator's name
here]
U.S. Senate
Washington, D.C. 20510

Chairman William E. Kennard
Federal Communications Commission
1919 M St., N.W., Room 814
Washington, D.C. 20554
(refer to CC Docket No. 97-211)

The Honorable [insert your congressional
representative's name here]
U.S. House of Representatives
Washington, D.C. 20515

If you don't know the names of your congressional representatives, go to
<http://congress.nw.dc.us/c-span/search.shtml> on the World Wide Web or call Capitol
information at 202-225-1212.

Notes

1. Shawn Young, "MCI's Roberts Sold Stock at Discount to Merger Value," *Wall Street Journal*, Nov. 14, 1997.
2. MCI and WorldCom, Amendment No. 2 to SEC Form 8-K, filed Jan. 28, 1998 ("8-K Amend. No. 2"), at 22-23.
3. *Id.*
4. *Id.*
5. Pay multiples calculated from executives' direct compensation plus the present value of their stock options.
6. MCI and WorldCom, Joint Proxy Statement/Prospectus ("Joint Proxy Statement"), Jan. 22, 1998, at 63.
7. *Id.*
8. See 8-K Amend. No. 2 at 24. Figures calculated from aggregate strike price and \$51 per share market price.
9. Joint Proxy Statement at 63.
10. *Id.* at 66.
11. Joann S. Lublin, "MCI Offers Managers Hefty Bonuses to Retain Them Prior to its Merger," *Wall Street Journal*, Nov. 25, 1997, at B9.
12. Joint Proxy Statement at 66.
13. *Id.* at 64-65.
14. *Id.* at 65.
15. WorldCom, SEC Form 8-K, filed Nov. 10, 1997, Exh. 5.7.
16. Joint Proxy Statement at 66-67.
17. *Id.* at 51, 54, 56.
18. Mark Landler, "For Salomon, as Adviser, Millions Plus Revenge," *New York Times*, Oct. 3, 1997, at D6.
19. Richard Waters, "Return of the Junk Bond King," *Financial Times*, Oct. 18, 1997, at 7.
20. "Up to 1,500 Posts to Be Cut in Routine Restructuring," *Wall Street Journal*, Dec. 22, 1997, at B4.
21. MCI press release, "MCI Quarterly Revenue Tops \$5 Billion for First Time," Jan. 29, 1998.

22. Rainbow/PUSH Coalition, Petition to Deny, *In the Matter of Applications of WorldCom, Inc., and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom, Inc.*, CC Docket No. 97-211, Jan. 5, 1998, at 26-27.

23. Joint Proxy Statement at 46.

24. Standard & Poors, *Telecommunications: Wireline*, Sept. 25, 1997, at 13.

25. Comments of the Communications Workers of America, *In the Matter of Applications of WorldCom, Inc., and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom, Inc.*, CC Docket No. 97-211, Jan. 5, 1998 (as amended Jan. 6, 1998), at 19-24.

26. *Id.* at 22.

27. Merrill Lynch, *WorldCom, Inc.*, Feb. 4, 1998, at 2. *See also* Argus Research Corp., Oct. 20, 1997: "We got the distinct impression in speaking with WorldCom that it may not be committed to keeping MCI's residential long-distance business. While the company has wisely said at this stage that it 'will not abandon' those customers, we think it would consider shedding those operations either by spinning them off to shareholders or selling them to another provider if retaining the business turned out to be a drag on growth or valuation. WorldCom's strength has been in serving commercial accounts; absorbing MCI's huge consumer business might prove troublesome and we don't believe Bernie Ebbers, WorldCom's CEO, would be very patient if it didn't look like it was working."

28. Merrill Lynch at 2.

29. Mike Mills, "WorldCom Would Shift MCI's Focus; Bidder Plans to Shed Residential Service," *Washington Post*, Oct. 3, 1997.

30. *Id.*

31. *Id.*

32. *Id.*

33. Comments of CWA at 31-32. *See also* WorldCom, SEC Form 8-K, Exh. 99.3, Analysts Presentation Given on Nov. 10, 1997 ("WorldCom Exh. 99.3"), filed Nov. 12, 1997, at 25-26.

34. WorldCom Exh. 99.3 at 25-26.

35. *Id.*

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